

## Message Text

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PAGE 01 STATE 172532

ORIGIN EB-07

INFO OCT-01 EUR-12 ISO-00 L-03 IO-14 AF-10 ARA-14  
EA-09 COME-00 AGRE-00 CEA-01 CIAE-00 DODE-00  
FRB-01 H-02 INR-07 INT-05 LAB-04 NSAE-00 NSC-05  
PA-02 EPG-02 AID-05 SS-15 STR-04 ITC-01 TRSE-00  
USIA-15 PRS-01 SP-02 OMB-01 FEA-01 /144 R

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EB/PAS:KDAVIS

-----049831 232229Z /72

R 230154Z JUL 77

FM SECSTATE WASHDC

TO AMEMBASSY LONDON

UNCLAS STATE 172532

E.O. 11652: N/A

TAGS: ETRD, EAGR

SUBJECT: COMMENTS ON THE AUSTRALIAN SUGAR STOCK ANALYSIS

LONDON FOR KATZ

1. THE FOLLOWING COMMENTS ARE FROM A REVIEW OF THE  
AUSTRALIAN SUGAR STOCK SIZE PAPER BY KEN DAVIS OF EB/PAS.  
WE ASSUME THE AUSTRALIAN PAPER IS TO BE USED IN SUPPORT  
OF A STOCK OF 1.84 MILLION METRIC TONS.

2. THE MAJOR PROBLEM WITH THE AUSTRALIAN ANALYSIS IS THAT  
THE MEAN OF THEIR CALCULATIONS FOR (P-C), THE EXPECTED  
MARKET IMBALANCE, IS NOT EQUAL TO ZERO OVER THE TEN YEAR  
PERIOD, BUT RATHER IS A SURPLUS OF ROUGHLY TWO MILLION  
METRIC TONS. THIS RESULT IS DIFFICULT TO BELIEVE FOR TWO  
REASONS: (1) A TEN CENT PRICE, EVEN ADJUSTED FOR INFLATION,  
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PAGE 02 STATE 172532

IS NOT HIGH ENOUGH TO GENERATE AN AVERAGE SURPLUS OVER THE  
NEXT TEN YEARS, AND (2) EVEN IF A TEN CENT PRICE IS HIGH  
ENOUGH, HOW CAN IT BE MAINTAINED WITH SURPLUS SUGAR YEAR  
AFTER YEAR? WHO ABSORBS THE EXCESS SUGAR TO SUPPORT THE  
TEN CENT PRICE?

3. IF ONE TAKES THE FOLLOWING CONSIDERATIONS INTO ACCOUNT:

(A) THAT OVER TIME THE EXPECTED MARKET IMBALANCE WILL NEITHER BE SURPLUS OR SHORTAGE; (B) THE PRICE WILL RISE OR FALL TO EQUATE PRODUCTION AND CONSUMPTION; AND (C) THE REQUIRED STOCK SIZE IS RECALCULATED USING THEIR METHOD WITH THE EXPECTED MEAN AT ZERO INSTEAD OF TWO MILLION METRIC TONS; THEN THE EXPECTED VALUE OF THE SHORTFALL INCREASES FROM 1.34 TO 2.33 MILLION METRIC TONS. TAKING THE AVERAGE LENGTH OF CONSECUTIVE SHORTFALLS TO BE 1.38 YEARS AS CALCULATED BY THE AUSTRALIANS, THE REQUIRED BUFFER STOCK SIZE IS 3.215 MILLION METRIC TONS (2.33 TIMES 1.38), NOT THE 1.84 MILLION METRIC TONS THEY CALCULATED. VANCE

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## Message Attributes

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**Review Markings:**  
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